SHORT DURATION DISCUSSION

On Mid-Year Review of Country's Economy and Its Implications -- Contd.

THE DEPUTY CHAIRMAN: Now, we take up reply to the discussion on the Mid-Year Review of the country's economy and its implications raised by Dr. Manmohan Singh on the 18th December, 2002. Shri Jaswant Singh.

THE MINISTER OF FINANCE AND COMPANY AFFAIRS (SHRI JASWANT SINGH): Madam, I am grateful to the hon. Members for the views they have expressed while participating in the discussion, yesterday.

I do believe that the objective of the Mid-Year Review of the economy and the purpose for which I had taken the intitiative in bring it out for the first time is very effectively served by the fact that there has been a participation of so many hon. Members sharing their views in this discussion. Sharing their views with us has certainly benefited me, because it was meant to inform the House the likely economic policy options before the country. Of course, I accept, since it is a brief document, it is not possible for the document to give everything that we ordinarily give. It is also a step in the direction of opening up the entire Budget-making and making the exercise more and more transparent and participatory. The idea, I think, has been served to make our policy determination and formulation, as also the monitoring of that, a continuous exercise, rather than once-a-year only event that normally takes place with the presentation of the Budget. This kind of a status paper on the developments in the economy, with particular focus on Central Government, for the first half of the financial year, is not the economic review that is normally presented before the Annual Budget. It is our experience that review coming, as it does, just two or three days before the Budget, it will not enable a kind of public debate, or, information that should take place. That was the purpose that I had in my mind in presenting this Review. I do believe that this purpose has certainly been served. I accept the fact that a number of hon. Members found deficiency and they had critical observations to make. That is part of the purpose of the presentation of such a Review. I did not expect any unanimous viewpoint, or expression of viewpoint in this regard. But, certainly, the debate that followed has, without doubt, benefited me. I will not refer to each and every issue that was raised. But, on certain aspects, for example, the hon. Leader of the Opposition, Dr. Manmohan Singh, had certain critical observations to make. He cited one particular

example that, in the Review, you speak of rationalisation of pension, and the very next day, the spokesman, I think, the Finance Secretary, had said that there is no proposal to bring down any interest rates in that regard. But that is the point. I think, both are equally valid observations because governance is, after all, a question of finding the correct balance between two equally just and valid concerns. I am sure, the Leader of the Opposition will accept that a rationalisation of the Centre's pensions, be they in the pension scheme of the Armed Forces, or, of the Central Services, is a very important part of the entire reform progress. If we do not address ourselves to the rationalisation of pension, in the absence of effective pension funds, in the absence of contributory pension scheme, we have a situation, for example, in the Armed Forces when we will have a pension bill larger than the salary bill. Therefore, there is a need to rationalise the sole process. The rationalisation of the pension process can, by no stretch of imagination, be equated with an equally valid concern. It means that those who are pensioners, those who are retired, those who are senior citizens, widows, had placed their funds in a kind of secured deposits, or secured investments. They must contribute to receive a return upon their investments, which is commensurate with what they had been getting earlier. That is the essential point. The balancing of these two equally valid but competing concerns is, after all, a part of governance and that is what the Finance Ministry is endeavouring to do. I sought this only to point out that in a continental-sized economy, the complexity of a Federal Government, and the managing of this continental-sized economy with diversity of it, can simply not be fitted into a pattern which answers to straight classifications. That is why, I am entirely in agreement with hon. Dr. P.C. Alexander. When we are talking of the nature of India's economy, I think, the debate also went into it. The Indian economy can be managed only in the manner that our genius enables us to manage. It will not fit into the pattern of any standard Western model. It is Indian. We will have to find our answers to it. Whether you call it 'mixed economy', or whatever term you like to give it, it cannot emulate, and it shall not emulate that; the answers will have to be Indian. That is absolutely self-evident; it cannot be anything else. Therefore, in this globalizing world, what role does a State have to play? The State continues to have a role to play. The State is the sovereign risk taker, the ultimate risk taker, and shall have to continue to do it. There are functions that only a State can perform, and the State will have to continue to perform. For example, in the absence of a welfare net, the obligations of the State such as development of social infrastructure, be it

health or education or the amount that the State of India incurs even in regard to habitation, cannot be taken up by anybody else. Therefore, the management of the Indian economy is always a challenging complex mix of both the State-managed economy, and a private enterprise. It is not *laissez faire*, it is not a free-for-all; it simply cannot be. But the creative demand of India, the product of genius of India, must be able to flower. That is the essence of it.

Now, there was a question that was put by the hon. Leader of the Opposition -- and I am mindful that I have to finish it in time -- that related essentially to Value Added Tax and Service Tax. He voiced an apprehension that if this was done too quickly, it could result in disruption, and therefore, there ought to be a white paper on it. I wish to share with him that we had appointed -- I had myself participated in that -- a high power committee, which is a committee of the Finance Ministers of States. The committee was earlier headed by my distinguished friend and colleague, the Finance Minister of West Bengal; he continues to head it. But then, they invited me to Chair it, and I sat with the Finance Ministers of all States of the Union, to discuss a number of issues, including the introduction of Value Added Tax. We have examined it from all sides. Just yesterday, the Cabinet has granted its approval to the constitutional amendment, which relates to the introduction of Service Tax. For example, the National Development Council is meeting on Saturday. I will be sharing the text of this constitutional amendment with all the Chief Ministers of the States. This will be given to all the Chief Ministers, and it is very closely linked to the introduction of Service Tax in the country. Also, I am sure, the hon. Leader of the Opposition, more than anybody else, understands the centrality of Service Tax. So far as Value Added Tax is concerned, a number of States have already enacted it, and the State Legislatures have taken those measures to introduce Value Added Tax. On the 1st of April, we will have a most extensive consultation. I have already worked out a formula, which I have shared with the States, and which I will be sharing in more detail with the States, to compensate whatever losses that could take place with the State finance, not simply for the first year, but for the first three years. That formula has been found out and it has found favour with the States. We will share the text of the constitutional amendment with the States, and I will have no difficulty in sending in advance the Bill to be introduced. I do express the hope that I will be able to introduce, at least, the constitutional amendment in this very august House. The Cabinet approved the constitutional amendment only last night. I don't want to rush it. I will share it with the National Development

Council. So far as the Service Tax Bill is concerned, I will be sharing it also, with all the States, and I have no difficulty in circulating the Constitutional Amendment Bill, as also the draft Service Tax Bill, when it is read by the Members of Parliament, including, of course, the Leader of the Opposition, as also the Chief Ministers of State. It is not something that we can do on our own. The entire Central structure of the country has to jointly do it. It is a correct step. Introduction of Value Added Tax on the 1st April, 2003 will be the right thing to do. Simultaneously, introduction of Service Tax will also be there. The States will have a share in it. How much share the States will have will be fully defined, and will be fully explained to everybody concerned in the State. I have no difficulty in saying this as explicitly as possible.

I come to the question of Shri Nilotpal Basu. He has said that "unless demand is revived, he does not see as much growth as we expect." I accept that. I have myself said that demand can be raised only through production. Unless the citizen has more to spend, how can demand be raised? That is amongst the first things I had said when I got the responsibility of the job of my Ministry. मैं चाहूंगा कि हर गरीब के पेट में अन्न का दाना पड़े और हर गृहिणी के बटुए मे कुछ और पैसा आए ।

"A little more grain in the stomach of the needy, and a little more money in the housewife's purse." I remain committed to it. Unless the consumer spends more and consumes more, demand cannot be created, and the consequential, beneficial, effect will not be there.

He also spoke of raising resources. "How will you raise the resources in the absence of production or given the tax-GDP ratios that you have? At a certain level, Madam, let me share, we have a situation here, today, in which the agricultural production is about 26 per cent of the GDP; about 48 per cent of the GDP is the service sector. The balance is the manufacturing sector. Roughly, I have quoted. From the manufacturing sector, you have taken out the small-scale sector because it is a sector which is preferred and which has received encouragement and preferential tax benefits. Agriculture is outside the tax purview. It, therefore, has, effectively, today, a very small base, a very small tax rate structure. Of the 50 per cent almost, which is the services, it has a very small sector, which is not even one quarter, which is manufacturing. That is the base on which you are taxing or earning your revenue. On that base, what you are getting is, roughly, three per cent of the GDP. Three per cent is coming under the "Direct Taxes". Six per cent is coming under the "Indirect Taxes". This

figure needs of Indirect Taxes to be reversed. It is regressive. But, simultaneously, the base has to be expanded, and, therefore, the vital importance of an effective countrywide Service Tax which is integrated with the Value Added Tax. The entire revenue structure of both the States and the Centre has to come up. In this regard, what is our approach? The administration of the tax has to be so effective that the citizen does not feel that taxation is some kind of a penal activity that the State is engaging itself in. That is the manner in which we are moving ahead. That is, really, the central aspect of the revenue part of the taxation that we have set into motion.

There are three or four other things that came up. One was about savings. Shri Virumbi spoke about savings. I agree that the rate of savings, today, in the nation can be higher, and savings is a factor that is directly related to the sense of confidence in the country's investment opportunities, be it the capital market, or anything else. Therefore, the emphasis has to be on promoting domestic savings. Simultaneously, I accept what the Leader of the Opposition has said that the savings, which are mostly domestic savings, really all the savings, are, unfortunately, absorbed or sucked away by the borrowings of the State. The State sucks away all the borrowings. The internal borrowings go up on the strength of internal savings. We don't have any problem of external borrowings. The internal savings have been sucked away by the State. Naturally, that part of the money is not available for further investment, whether it is the manufacturing sector or any other sector. I accept what the Leader of the Opposition has said. Unless the manufacturing sector shows much greater dynamism than what it is showing today, we will not be able to rapidly move towards the kind of GDP growth that we want. Therefore, it comes to the proper management of it in totality. We have to increase the savings, reduce the sucking away of those savings by the State and direct it towards the manufacturing sector so that it picks up. I am trying to do that. There are some signs of revival of the manufacturing activity. Some sectors have picked up. Exports have picked up. Steel is looking up. The automobile industry is looking up. The textiles are not as unhealthy as earlier. All this needs to be encouraged. It is a giant economy; it is a continental economy; it is a complex economy; and it responds quickly. But it needs to read right signals. It can only read right signals, if the right signals are sent out.

5.00 p.m.

Then there are two very important questions about agriculture. If you look at the Mid-Year Review, you will find that a great deal of attention, under infrastructure, is shown on agriculture. The central point is that there are two sentences about agriculture. We have, on account of some very really farsighted activities that were set in motion by the previous Government, particularly, the Green Revolution, etc., in our agricultural economy, moved away from an economy of shortages and wants to an economy of surplus. We have an economy of surplus. But our management of the entire agricultural sector and the foodgrains sector is still stuck in grooves of an economy of wants. This mindset has to be altered. That is why in Mid-Year Review we are talking of exactly that. Sectors like food processing, horticulture, sericulture, et., are areas of activity, which are yet untested Once we test these areas, I have no doubt in my mind that the Indian agriculture will flourish. It is already doing so in various parts of the country.

The second point is employment. All this activity is related to generating greater and greater employment. That is why in the Mid-Year Review--you may have observed it--two areas have received particular attention. It doesn't mean that the other areas are not important. The two areas which have received particular attention are housing and tourism. Housing has a synergy of expanding employment in concentric circles, ever expanding. In tourism, a study has effectively established that from every tourist who comes into the country or any place, at least, 5-7 citizens benefit, the taxies, tongas, scooters, hotels and shops. So, from every tourist, 5-7 citizens are benefited through generation of employment. These two sectors, housing and tourism, must receive particular attention. It doesn't mean other sectors must not receive attention. The Mid-Year Review is not a document which claims to be the Bible of economic activity. It is a kind of route chart that we have shown. It is also a statement. I have used a phrase and that is how I look at my functions. We are trustees. The Ministry of Finance conducts itself as trustees of the economy, so far as the country is concerned. As trustee, I consider it my duty to come to the country, not just simply in the Parliament. I presented it to the Parliament to report to the country that this is how I find the economy which is really your economy. It is not my economy and in the management of the economy, this is how we are thinking, what we are doing. Please tell us if we are not doing correctly. But in telling us what we are not doing correctly, please also tell us those things which you think we

are doing correctly. Madam, however, tired tonga-pony, if at the end of the day, pony sees a little pat....

THE DEPUTY CHAIRMAN : We cannot call you 'pony'.

SHRI JASWANT SINGH : However, we do not claim perfection, but, I am very glad in stating that, at least, the Mid-Year Review of the economy is a correct step. I do not mind everybody, so many members, saying, this is not how you should be doing it, this is how you should be doing it. That is the purpose of the Mid Year Review. But the fact that the taking of the step of such a Mid-Year Review has been welcomed by everybody, is reward enough for me. Thank you.

THE DEPUTY CHAIRMAN : What is your problem, Mr. Virumbi? You hardly have any problem.

SHRI S. VIDUTHALAI VIRUMBI (Tamil Nadu) : Madam, yesterday, I did raise the issue regarding Value Added Tax. We are going to change the taxation policy to impose Value Added Taxes. At that time in every State, throughout India, when Sales Tax was in vogue, they have given some assurance to the entrepreneurs for sales tax concessions for 5 years, 7 years etc. When the taxation policy has to be changed to the VAT, what will be the position of the State Governments, throughout India, on the assurances, which the entrepreneurs are expecting them to honour. Assurances given should be honoured. The commitments should be honoured by the State Governments, throughout India. How are we going to solve this problem when we change the taxation policy and witch over to VAT? The assurances given to the entrepreneurs by the State Governments have to be honoured. How they are going to honour the commitments and address all other related problems? How are we going to tackle this?

SHRI JASWANT SINGH : This will be taken care of. It will be taken care of in cases of individual states. I have no difficulty in sharing with the hon. Member that it is over a period of three years that we are going to compensate the States. We will ensure, in the scheme that we work out, compensating any notional or possible loss of revenue to the States. We will ensure that such assurances as have been given by the States to entrepreneurs are also factored into it.

THE DEPUTY CHAIRMAN : Now, we have the Competition Bill, 2002. I know it is late, but, if the House so agrees, I can ask the hon. Minister to move the Motion, and, if he is not going to make a long speech, then he can also make a speech.